JUL 25 1950

The Mortgage Banker

AUGUST
1950

DETROIT MBA HOLDS VA CLINIC: One of the last mortgage meetings held prior to MBA's annual convention was Detroit's VA Clinic in mid-July. Above, the group that attended and below, left to right, Robert Feys, VA appraisal section; Harold N. Finney, executive vice president, Citizens Mortgage Corp., moderator; Hans Gehrke, Jr., president of Detroit MBA; Walter Powers, VA loan guaranty officer; and James Schwerin, VA examining section.

President's Page

During the past several weeks every American has been doing some serious thinking as to our possible future relations with Russia as a result of the Korean crisis which, as this is written, daily grows worse. It is only natural that our thoughts should also turn to the ultimate effect on the mortgage business. On the vast international scene, the future is indeed unpredictable at the moment because no one can foresee the future action of Russia. We can, however, analyze some of the political effects of possible future actions on our business.

Of particular importance to our industry is the effect of this crisis on GI loans, both in volume as well as the possibility of a moratorium or assumption by the federal government of the obligations upon the induction of GI borrowers. Congressman Rogers of Florida is preparing now a bill to advance directly to the mortgage holder all payments due on mortgages of men in uniform for the period of the Korean crisis. The proposal is that the federal government will pay not only interest, tax and insurance escrows, but also principal as well. In addition, it is proposed to pay rents for families of the men in uniform as well as all premiums on life insurance policies. This is in line with the thinking that has been widespread in our industry for the past two years: namely, that in the event of redrafting, some such program would have to be worked out. MBA has asked, through Washington Counsel Neel, to make suggestions on this bill prior to introduction. This certainly would be a preferable program to a moratorium; and I believe we can be thankful that there is sentiment for some form of advance rather than have congress pass a moratorium upon debts of borrowers in military service.

R. O. Deming, Jr.

It appears at the moment that the Korean affair may be long and drawn-out and might ultimately lead into World War III. The odds look uncomfortably close that World War III might be in the making; but, personally, I doubt if this could happen during 1950. It seems also apparent that the United States is moving rapidly toward a war-time economy, increased spending for defense, increased arms production and expansion of armed forces—all of which should super-impose at least a small war boom upon the present peacetime boom. This would, I believe, inevitably lead to strong possibilities of controls being exercised by the federal government.

Indications are that, should the President declare an emergency, it will be a real emergency and will ultimately result in internal economic controls, all of which might have the effect of stopping builders from new housing starts and materially lessen the demand for all classes of real estate mortgages. It also seems possible that for houses already started—should economic controls be declared or voted by Congress — the builder would probably be granted priorities for materials to finish them. This presents the possibilities of a serious problem in connection with any interim financing of construction being done by our members.

Transfer of FNMA from RFC to the Housing and Home Finance Agency has been approved by Congress and becomes effective September 9th. The tremendous back-log of demand for purchase by Fanny May of GI mortgages has not developed; and the opinion has been expressed in Washington that the 60-day waiting period pending sale to FNMA might well be eliminated. Inasmuch as this waiting period is entirely within the control of the Administration, a change of FNMA regulations so that paper would be immediately salable would be constructive and assist our membership in making and handling GI loans. It is reported that FNMA has sold more loans so far during July than were purchased so that purchasing power, as of this date, is in excess of $500 million.

GI loans apparently are growing in popularity rather rapidly among investors, particularly since the guaranty has been increased to 60 per cent. Many new outlets for these mortgages are opening up, which is another reason why the demand on FNMA to buy has slackened. From all indications, the war crisis will have the effect of continuing a low interest rate on government indebtedness; thus, it would appear that a good market for guaranteed or insured mortgages, as well as conventional loans at existing rates, should continue for some time.

Association activities continue at an extremely high level, thanks to the efforts of all committees. Marketing conditions in the mortgage field for the past few months have indeed been hectic. The problems of our members have been greatly varied; and it has been through the suggestions, ideas and cooperation of committee members that these activities have been increased in such a constructive manner. I am deeply appreciative of the assistance that has been extended to your national officers by all committees and the general membership as well.

R. O. Deming Jr.

President
Mortgage Bankers Association of America

July 17, 1950

MBA CALENDAR

September 27-29 DETROIT, 37th annual Convention and Exhibit of Building, Industry and Services, Statler and Book-Cadillac Hotels.

MBA's calender of events gets pretty slim at this time of year. The one scheduled event coming up is the annual convention and it's not too far away. Just as a reminder: have you taken care of your hotel accommodations and made your advance registration so your name will appear on the list available at the opening of the meeting? If not, then don't delay a day because after Labor Day the convention will be right on you. Practically all convention plans have been completed and you'll hear about them in the next issue of The MORTAGE BANKER.

Now with a member in Mexico *(see page 10)* and members in Canada and Puerto Rico, MBA is no longer confined to the United States. But how does anyone in Barcelona, Spain hear of us? J. Millas-Raurell of the Officina De Informacion Economica in that city did and wrote:

"We are an organisations devoted to the economical and financial information for the industry and trade of our country. We are not a society with lucrative interest as our founds are covered by several private organisations. We have heard about your publication and we shall be very acknowledged to you if you would be so kind to enter our name in your mail files.

"We are at your disposal for all economical and financial information you could need from our country. With our advanced thanks, we are, Dear Sirs,

yours faithfully,
J. Millas-Raurell."

Last month we mentioned that we would send an MBA insignia decalcomania for your office door. Many members requested them. If you want one, drop us a line.

The Mortgage Banker

PUBLISHED MONTHLY BY THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Executive and Editorial Office
111 West Washington Street, Chicago 2

Washington Office:
1001—15th St., N.W., Washington 5, D. C.

THE MORTGAGE BANKER is distributed monthly to members of the Mortgage Bankers Association of America. Publications may reproduce material appearing in the magazine only by permission of the Association. Opinions expressed are those of the authors or the persons quoted and are not necessarily those of the Association. Advertising rates on request. Subscriptions: Of the Limited Regular and Associate dues, $4.00 is for a year's subscription to THE MORTGAGE BANKER, the official monthly publication of the Association. Separate copies 35¢. Entered as second class matter at the post office at Chicago, Illinois, under the Act of March 3, 1879.

Volume 10 **AUGUST, 1950** **Number 11**

Contents

We're Over Building in Office Structures

By LEE THOMPSON SMITH

THE spectre of an oversupply of office space is rising again. It is not yet generally apparent but the first signs are unmistakable. Great modern structures, now rising in many cities, fling serious challenges to all office buildings that have enjoyed reputations of being "new" buildings for almost 20 years.

L. T. Smith

This is hard to take. But these great modern structures carry rental rates that entail rental policies that cannot be applied to existing structures. They are planned to consolidate on one of their floors the offices of a corporation that may be scattered throughout several prewar, predepression buildings. In fact, they make up a new boom in office building that has all the earmarks of being bolder and lustier than the notorious over-expansion that began around 1925.

In New York, for example (and New York affords a glaring example when it comes to office buildings) we have had more new space placed on the market since the war than was built in several of the giddiest boom years of the 1920's. And it is being filled at rentals that none of our existing buildings could command.

This new space exceeds the total produced in both 1925 and 1926 put together. It amounts to more than we built in 1926 and 1927 combined. It even tops the output of 1927 and 1928!

This year alone, with a total of 4,208,000 square feet, is edging close to the peak records of 1929 and 1931, which rolled up 5,325,000 and 5,585,000, respectively. To say that New York had an average vacancy percentage of only 1.2 per cent, as of last January 1, may be relevant as a justification for this new construction.

But the question is how long will occupancy continue to average that high?

Vacancy Outlook

The vacancy rate, although still negligible, has been rising since May, 1946, when it figured at only 16 one-hundredths of 1 per cent for more than 60,000,000 square feet of office space in some 400 buildings.

The vital point to office building owners and managers is whether vacancies will continue to increase at the rate registered in the past year. If they should happen to do so, we could be faced with more than 10 per cent vacancies by 1952! Such vacancies would exceed the amount of new office space now being built. But who would bear the brunt of such a situation? Certainly not the newest buildings.

Tenants are signing long leases in the newest buildings in New York, 10- and 20-year leases at rentals averaging around $5 or better per square foot. In one of the finest of new skyscrapers, finished this year, there are cases of rentals running up to $7 per square foot. Tenants are willing to pay these amounts because the new structures obviously have something. And obviously, for the same reason, tenants will stay in the newest buildings when, as and if more vacancies occur.

In New York, we began 1925 with about 30,000,000 square feet of space in existing buildings and find ourselves now with new structures already scheduled for 1951 which will bring the grand total up close to 70,000,000 square feet.

Vacancies jumped in 1928, fell again in 1929, and then started their tragic climb. By 1933 office vacancies in New York amounted to more space than had been built in the boom years of 1925, 1926, 1927, and 1928 combined—and they continued to increase!

In short, in the past 26 years there were 13 years in which Manhattan

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In no section of real estate today are opinions quite as divergent as is the outlook for office buildings. At the moment, the situation is good, all agree, with national occupancy at about 97.41 per cent. It has declined some since last Fall but the decrease is only around one half of one per cent. Average rental rates gained last year about 19c per square foot over 1948 bringing the average up to around $2.76 a square foot.

But what about the future? Are we building too fast? Lee Thompson Smith, chairman of the executive committee of the Home Title Guaranty Company of New York, says yes and believes that the period of over production in this field is definitely here. But the building goes on and he foresees severe competition with older buildings in the not too distant future. But not everyone agrees with him by any means. Many authorities say every foot of space under construction is fully justified.

There's only one answer, Smith says, and that is for the older buildings to modernize to meet the competition of these new structures. Only in that way can they meet the competitive onslaught which seems likely to develop sometime in the future.

office vacancies averaged more than 10 per cent and 13 years when they were below that level.

Over a period of 22 years a group of 330 choice office buildings were obliged to pay a total of $80,000,000 in real estate taxes on vacant office space that was producing no rental income. More than $30,000,000 of that amount was paid in taxes on vacant space that exceeded the 10 per cent level.

And during that trying 13-year period, when vacancies averaged far above 10 per cent, the total tax bill on unrented offices in these test buildings amounted to almost $70,000,000.

Paying the Penalty

This is the penalty for overbuilding. In May 1934, figuring at the conservative rental rate of $2 per square foot, which was more or less the prevailing average at that time, those buildings were losing $27,355,000 on their rent rolls and paying out $7,557,000 in taxes on unrented space. This meant a total annual deficit of $35,000,000 without figuring interest and other fixed charges. It's a wonder that any private ownership survived.

To plot our course today on the basis of these past experiences is certainly just plain prudence.

Today, because building costs are higher than we could have imagined in the 1920's, rents in the newer buildings are ranging high. Even when one considers the 1950 dollar in comparison with the prewar dollar, the spread between the new-building rentals and the rents in established buildings is much greater than it was in the late '20's. This is one danger signal.

Leo J. Sheridan of Chicago, who has discussed office building trends at MBA meetings, recently made some estimates on what new buildings should earn in order to yield a conservative return on investments. He estimated that an average of $6 per square foot would be required on a basis of 90 per cent occupancy. I am told that he figured this on construction costs of $1.50 to $1.75 per cubic foot.

Well, in New York, where costs actually have turned out to be $1.10 and more per cubic foot, some of the new buildings will average a bit less than $5 per square foot.

Then take Chicago, the nation's second largest city. Dr. Homer Hoyt appraised it this way: "Since space in existing buildings is available at from $3 to $3.50 a square foot, with only choice space bringing $4.75 a square foot, it is hardly possible to secure sufficient rentals on new buildings to yield a fair return on the investment. Moreover, the competition of more office space would reduce even the present average rental rates in older buildings and increase vacancies in them. The final effect would be to push all office building income below present high operating costs."

The conclusion is that there is no economic justification for additional office building in Chicago. That city has had an experience very similar to New York's in over-production. Chicago's vacancy averages jumped from 4.6 per cent in 1925 to 29.2 per cent in 1934. Today they are reported around 2 per cent.

"Larger cities, those with more than a half million population, have caught up with their space needs even more than smaller cities have. Among the big cities, 73 per cent reported having reached a balanced supply of office space. Seven per cent were already overbuilt and only the remaining 20 per cent still reported shortages. Yet the building boom appears to be continuing full steam ahead. A recent poll shows 38 cities now have 126 new buildings completed or under way. These represent a total investment of close to $520,000,000. The total amount of space being provided is more than 20,000,000 square feet — approximately equal to the combined total in Philadelphia, Pittsburgh, Baltimore and Washington."—Lee Thompson Smith.

And the picture is not so vastly different in other cities. A poll of 470 cities recently showed office space already balancing demand in 50 per cent of the cities. The supply was still considered short in 44 per cent of the cities. And an oversupply was reported in 6 per cent of the cities.

However, the larger cities, those with more than half a million population, have caught up with their space needs even more than smaller cities have. Among the big cities, 73 per cent reported having reached a balanced supply of office space. Seven per cent were already overbuilt, and only the remaining 20 per cent still reported shortages.

Yet, the building boom appears to be continuing full steam ahead. A recent poll shows that 38 cities now have 126 new buildings completed or under way. These represent a total investment of close to $520,000,000. The total amount of space being provided is more than 20,000,000 square feet—approximately equal to the combined total in Philadelphia, Pittsburgh, Baltimore and Washington, D. C.

This expansion, coupled with the housing boom, is approaching new inflation in the opinion of the most astute economists. They point out that the overall urban mortgage debt has increased almost 100 per cent in the past five years. In 1945 it stood at $31,000,000,000. Today it is $60,000,000,000. At the present rate of construction and financing the mortgage debt will top $70,000,000,000 by the end of next year.

It has been calculated that this debt, figured on a per-family basis and adjusted to modern price levels, is now very close to the peak of expanded credit that we had reached at the end of the boom of the 1920's. Any sudden drop in employment or income could create a critical credit situation. Here is another danger signal in the financing of new construction.

Why We Over-Build

It is true that the bondholders of the 1920's are not in the picture today. But what is the ultimate difference between a bondholder and a policy holder—or between a bondholder and a depositor? Large operations, whether they entail new construction or the maintenance of established properties, necessarily involve other people's money. Definite responsibilities of public relationship and socio-moral obligations are inherent in financing today.

In the light of all this past experience, why do we keep on erecting more office buildings? The answer, of course, is that we can rent them. Even under currently high construction costs, we can rent them at higher rates.

And why? Because these buildings are modern — modern in the mid-Century meaning of that word. Primarily they are air conditioned — climate controlled, they call it. The air conditioning plant in one of New York's newest structures cost $1,600,000! Largely because of this—and some other features, too—these buildings afford maintenance savings of 30 to 40 per cent below some of the older buildings.

Air conditioning, minimizing dust and soot, results in definite labor savings. Radiant heat under sidewalks saves more labor in snow and ice removal. Among other features, aluminum window frames need no painting.

But one salient characteristic of the new buildings that cannot be adapted to old buildings at any price is their basic planning. They provide large blocks of space on one floor with great glass areas, better lighting, fewer courts and less waste space, new automatic elevator arrangements for fewer cars and faster service.

The new Crowell-Collier Building, adjoining Rockefeller Center on New York's Fifth Avenue, even has self-service elevators for use on Saturdays and after hours. This may be writing on the wall for elevator operators who leave tenants stranded during a strike.

Deeper floor areas, among other developments in design, result in as much as 80 per cent of net usable space as compared with 65 per cent in the buildings that were conventional 20 years ago.

Change in Policy

Is it any wonder that large corporations are attracted to such set-ups? Yet, rental rates on some of the newest buildings in New York already are being adjusted slightly. Naturally, anybody in any location cannot hit the high score of exceptional $6.95 per square foot.

There is one building that was launched with visions of $4.50 to $5 rentals for its lower half. But before renting was attempted those rates were lowered to $4.12 to $4.50 for the same floors.

On the other hand, an ace in location and all other factors, with one year's head start, brought rentals such as these: $70,000 for 10,600 square feet; $50,000 for 7,200 square feet, and so on.

And rental policies have undergone a big change since the war. For a time—and undoubtedly in some cities it is still done—we could leave partitioning and other space planning up to the tenant. That has changed now. The newer buildings include partitioning, painting, electric light fixtures, and venetian blinds in the deal. It used to be that the cost of partitioning would figure out around $1 per square foot. Today it runs around $4. By the time you include venetian blinds and the rest of the services you have an expense of $5 per square foot—or virtually a year's rent.

"Don't feel that you do not have to modernize because you have held your tenants for ten years. Of course you have held your tenants. Everyone has. The past ten years have not been normal. But modernization will hold smaller tenants and thereby remove a demand for new buildings to house them. But if you sit back and inhale that old opiate that you have held your tenants for ten years without lifting a finger you will see many more new buildings tempting Model-T tenants to splurge on Cadillac space even though their old bus still runs all right. I am convinced that the only sensible curb we can place on overbuilding is through keeping our older buildings in the running as long as possible through attractive and comfortable modernization." —Lee Thompson Smith.

One new building is advertising that the management will assist in planning the most efficient use of the tenant's floor space. This means special architectural service.

Many years ago I took part in breaking office building owners away from supplying light to tenants. Today that practice is back again. An insurance company in New York is supplying light to tenants in its new building.

Some years ago the Real Estate Board of New York established a standard practice under which corridor space would be included in the rentable area of a floor, but toilet space would not be included. Today toilet space is being counted in again —so that actual square foot rentals are being thrown off a bit.

Long-Range Factors

One of the long-range factors that must be considered in office space today is the role of the modern business machine. Business machines are directly responsible for a decline in the per capita trend in the requirement for office space.

Now, what can the owner or manager of an older building do in the face of this competition from new buildings? Suppose vacancies do not show signs of increasing quickly. This could mean the attainment of a level of business that would justify still more new buildings. This would mean still more competition for owners and managers of older buildings.

So what can be done about it? They can and must modernize, but the first hurdle is to modernize a frame of mind.

I recently discussed the possibilities of modernization in New York. My mere mention of the subject brought forth a letter from an irate owner of several older buildings adjacent to the downtown financial district. He said in part:

"We have a building which is 55 years old. Most of the tenants have been in that building for over 10 years. Each merchant has his own stand or office, many of them tiny, but they have developed an interplay associated with a common trade and interest. And we have many buildings like that."

Then he continued, "The remedy is not at all in the modernization, as you call it, of buildings that are thoroughly modern already, but which lack gadgets of one kind or another; the remedy lies in the lending institutions realizing that the larger part of their investments are already in the older buildings, which contain 60,000,000 square feet, as against the golden mirage of the new 6,000,000 square feet with the glamor of the new mortgage and the new commissions, and so forth."

Now here you have a state of mind to cope with. But you also have a real clue to the solution of the problem.

True modernization does not mean gadgets. It does not mean that you

(Continued on page 13, column 2)

THE LIFE COMPANIES SEARCH FOR INCOME

Most of them are keen for good mortgages and other investment media which will pay a better return than U. S. government bonds

THE average life company is scrutinizing its investment policy with an eagle eye to get the best yields obtainable. In fact, the search for greater income from investments is more intense than ever before. One result has been that government bonds are in somewhat less favor than in recent years and another has been a great desire for good mortgages—a trend of which most mortgage men are acutely aware.

Back in 1946, U. S. governments accounted for just about half of total admitted assets of the life companies. Last year, 12 of the largest companies, with assets representing 72 per cent of those for the industry, cut their holdings of U. S. issues by $1.3 billion, lowering the total investment to $11.6 billion, or 27 per cent of total admitted assets. Since the end of 1946, their aggregate disposal of government obligations has amounted to more than $5.4 billion, says a *Barron's* compilation.

The trend so far this year has been a little the other way but no big swing back. For the first four months of 1950, latest period for which data are available, the life companies acquired $319,000,000 of U. S. bonds as against $258,000,000 in the same time a year ago. Their holdings of governments stand at $15,099,000,000 as compared with $16,195,000,000 at the end of the first four months of 1949.

Leading the field in the trend away from governments for 1949 was New York Life which disposed of $387 million, a reduction of almost 20 per cent. Close behind was Prudential which sold $383 million, which, however, was only 12 per cent of the previous year's holdings.

On the purchase side, the largest movement into industrial and miscellaneous bonds was made by Metropolitan with an addition of $329 million, or 18 per cent of similar assets held at the end of 1948. Percentagewise, Travelers scored the biggest gain. Its addition of $42 million represented an increase of 127 per cent.

Prudential moved heavily into mortgages. Additions amounted to $548 million, or 31 per cent of the previous year's holdings. John Hancock added $77 million for a 33 per cent gain, but the largest percentage gain was made by Mutual Life which added $35 million to its mortgage account, for a gain of 39 per cent over 1948.

Investments in mortgages, while totaling slightly less than industrials and miscellaneous at $7.1 billion, recorded a larger gain of 22 per cent from the $5.8 billion of the year before.

Effect on Earnings

Just how these changes in portfolios have affected earnings is shown in figures made public by the Institute of Life Insurance. In 1949, for the first time since 1945, the average ratio of net investment earnings to mean ledger assets exceeded 3 per cent, reaching 3.04 per cent. The average interest earned on investments in 1948 was 2.96 per cent, while the year before, the earnings ratio reached an all-time low of 2.88 per cent. These percentages compare with prewar averages of 4.10 per cent for the 'thirties and 5.07 per cent for the 'twenties.

Thus far in 1950, companies have continued to move heavily into the corporate and mortgage fields. Divestment of government bonds has been continuing, as previously stated, but at a decelerated pace.

During the first four months of this year, the life companies bought $1,000,000 of VA farm loans bringing their total to $28,000,000. Other farm loans acquired amounted to $138,000,000, boosting this total to $1,178,000,000 — an increase over the $1,026,000,000 of a year ago.

They also bought $502,000,000 of FHAs in the first four months bringing this account to $3,897,000,000 and purchased $94,000,000 of VA loans bringing them to a total of $1,284,000,000. Other mortgages acquired totaled $513,000,000 bringing them up to $7,261,000,000.

Dr. Raymond J. Saulnier, professor of economics at Barnard college, Columbia University, has just written a book of Urban Mortgage Lending by Life Insurance Companies (published by the National Bureau of Economic Research, 1819 Broadway, New York City) in which he concludes that the life companies will play an increasingly larger role in the mortgage market and as investors in residential, commercial and industrial properties.

Saulnier's study was conducted with funds provided by the Association of Reserve City Bankers, the Life Insurance Association of America and the Rockefeller Foundation.

The importance of the insurance companies is greatest as lenders on urban and non residential property,

While life companies ferret out investments with the best return combined with safety, they find their own expenses still higher. The ratio of operating expenses to total income for all U. S. life insurance companies rose last year to 17.2 per cent, compared with 16.8 per cent in the previous year. The increase in recent years is due of course to the general rise in costs and the great increase in purchases of new life insurance by American families. In periods of increasing life insurance sales, expenses naturally rise because of the cost of putting new business on the books.

Saulnier says. Estimates indicate that they held about 40 per cent of such mortgages outstanding at the end of 1945 and of course a great deal more today. In contrast, they held 14 per cent of all urban residential mortgages and 16 per cent of all farm mortgages.

Since 1938, life companies have held from 7 to 13 per cent of all mortgages on one- to four-family properties and from 14 to 23 per cent of the mortgage debt on larger residential structures. The financing of specialized commercial and industrial properties is being done largely through the life companies.

Urban mortgages are found, without exception, among the assets of all insurance companies with resources of $100 million and over. Only a very few small companies have no mortgage investments at all. In 1945, more than 80 per cent of all companies held some urban mortgages, and more than 90 per cent of all companies with admitted assets of $1 million and over were urban mortgage lenders.

Biggest Loan Buyers

The heaviest urban mortgage loan investments are found among the companies with assets of less than $500 million, of which 13 had between 50 and 70 per cent of their assets in urban mortgages. This is indicated by analysis of available reports for 1931, 1936 and 1945.

Of fourteen companies reporting holdings of urban property for investment purposes, most showed amounts less than 1 per cent of their total admitted assets, though one reported such properties equal 2.4 per cent of all admitted assets. The proportion of total assets invested in urban real estate is about the same for all sizes of companies. In general, most such property was acquired through purchase.

In their lending policies, Saulnier found, individual companies vary all the way from those that lend exclusively, or nearly so, on small residential properties on an insured basis (most frequently the small portfolio companies) to those whose portfolios consist mainly of large loans on income-producing properties of the residential and commercial type (mostly companies with large loan investment).

Between these two extremes there are other companies, mainly those with intermediate and large-sized investments, that follow a policy of broad diversification.

After reviewing the history of urban mortgage lending by life insurance companies and analyzing the market served by the companies, the economist presents an analysis of their urban mortgage lending costs and returns between 1945 and 1947.

In a study of 3,390 loans with an original amount of $37,128,000 outstanding in 1946, he finds that about 90 per cent of the number and 45 per cent of the amount of the loans were on one- to four-family properties, and the great majority were on single family homes. About 95 per cent of the number and 85 per cent of the amount were originally made in amounts of less than $10,000.

(Continued on page 15, column 1)

MBA MORTGAGE BANKING SEMINAR SETS RECORD FOR ATTENDANCE; 38 STATES REPRESENTED AT COURSE

What anyone who has seen it function agrees is one of the constructive contributions MBA makes to the betterment of the mortgage industry—our annual Mortgage Banking Seminar at Northwestern University—was an even more successful achievement this year than it has been in the past three. Registration hit 105 from 38 states and it would have been larger had the facilities been available. Those who attended this third annual edition of the Seminar course can be seen in the photo above; and to quote a committee member, "the future of the mortgage business is in excellent hands if those who attended the Seminar are representative." And that seems to be a well founded conclusion.

Expert planning, careful selection of lecturers and a smooth running schedule combined to make this five day course an excellent excursion into what constitutes this business of mortgage lending and investing.

The course is sponsored by the Seminar section of our education committee headed by William L. Leighly, vice president, Dovenmuehle, Inc., Chicago. Secretary George H. Patterson serves as registrar and Frank J. McCabe, Jr., Association director of education and research, is in charge of arrangements. Other members of the Seminar section are Norman H. Nelson, St. Paul, Chairman, Education Committee, and W. R. Bryant, San Francisco, Stanley Fosgate, Miami, A. S. Love, St. Louis, Ward Gauntlett and Robert H. Pease, Chicago and Jack D. Merriman, Kansas City.

Speakers included Dr. Arthur M. Weimer, dean of the school of business, Indiana University; Robert E. O'Dea, trust officer, and Robert Kratovil, title officer, Chicago Title and Trust Company; Fallon A. O'Leary, Cornet & Zeibig, Inc., St. Louis; Robert H. Pease, vice president, Draper & Kramer, Inc., Chicago; Watson A. Bowes, Denver; Frank D. Hall, vice president, Brooks, Harvey & Co., New York; Mr. Leighly; Maurice R. Massey, Jr., president, Peoples Bond and Mortgage Company, Philadelphia; Walter C. Nelson, vice president, Eberhardt Company, Minneapolis; Gerald A.

Some of those who planned and created the MBA 1950 Mortgage Banking Seminar. Left to right, first row, Frank J. McCabe, Jr., William L. Leighly, Norman H. Nelson and Walter C. Nelson. Back row, G. H. Knott, Secretary George H. Patterson, Fallon A. O'Leary, James C. Downs and Gerald A. Golden.

Golden, Sun Life Assurance Company, Montreal; Aksel Nielsen, president, The Title Guaranty Company, Denver, and former Association president; Allyn R. Cline, president, Cline Mortgage & Trust Company Houston; Richard M. Hurd, Teachers Insurance and Annuity Association, New York; James C. Downs, Real Estate Research Corp., Chicago; John Fox, Mercantile-Commerce Bank and Trust Company, St. Louis; Philip N. Brownstein of the VA; Oliver M. Walker, Walker & Dunlop, Inc., Washington, D. C.; Homer B. Gibbs, National Life & Accident Insurance Co.; Robert N. Reid, general counsel, FNMA; and George S. Dalgety, Evanston, Illinois.

The Seminar was exclusive with those who attended since no record was made of the lectures and of course they were too extensive to digest here.

One talk, that of James C. Downs, was a broad, over-all appraisal of where we stand today in real estate and real estate financing.

"Your mortgage outlook," said Downs, "is the employment outlook. Booms never taper off—they drop dead. Most people, if they lose their jobs—as many of them do when booms collapse—would cause a mortgage default for you in sixty days. So your outlook is the outlook for employment.

"This is a time for conservatism. Watch your borrower. You must be careful in your lending. We are being poorly managed in a managed economy.

"Building is exceeding demand. We are adding to our supply faster than demand is being created. Vacancies are beginning to occur.

"There is very little speculation in real estate today. Transactions in real estate are mostly for use."

THOMAS E. McDONALD JOINS MBA STAFF TO DIRECT NEW DIVISION FOR BETTER MORTGAGE ACCOUNTING

Another major expansion move in the development of additional services for members is the affiliation with the Association of Thomas Edward McDonald who will head up a new department for MBA. Mr. McDonald has joined the Association's permanent staff and will organize a new section devoted to accounting and servicing. His affiliation is another step in the expansion program begun last year.

His position is unique in the sense that not before has MBA had one exactly like it. Briefly, his job will be to assist members in their servicing, a further recognition of the growing importance of this phase of the lending operation, a fact also clearly demonstrated by the great number of servicing meetings held this year by mortgage groups over the country.

To Study Methods

Mr. McDonald's past experience admirably qualifies him for the new post. It has been varied and completely adaptable for the work he will do for the Association. Initially, he will spend several months studying at first hand the accounting practices now being used by representative mortgage offices in various sections of the country including some of the largest as well as small and medium-sized ones. Following this, his department will then set up and execute a program of service in servicing. This will embrace a number of things—reports on individual aspects of servicing, how they are being most commonly handled and what appears to be the most efficient and economical way; articles on special servicing problems in *The Mortgage Banker;* and appearances before local mortgage groups on servicing problems.

Eventually it is contemplated that he will be available to MBA members for consultation on an individual basis. Today many mortgage firms have reached a point in their accounting where the old procedures have all but broken down because of the greatly increased volume. Methods that worked satisfactorily before have become burdensome and too costly. According to Secretary George H. Patterson, under whose planning the new activity originated, it is contemplated that Mr. McDonald will be available for members' use to revise or reorganize their servicing department. Even before the official announcement was made, a demand for this sort of assistance has developed but, said Secretary Patterson, it is still many months away before members can avail themselves of it.

The Association welcomes Mr. McDonald to its staff and predicts a highly promising future for him in the organization and some of the most substantial and worthwhile benefits to members because of his affiliation.

Mr. McDonald is a graduate of the University of Illinois, where he obtained a B.S. degree in accounting. This was followed by a year's study at Northwestern University in graduate accounting, followed by further study at Loyola University. He received his CPA in Ohio in 1946.

Prior to his affiliation with MBA, he was chief accountant for Briggs & Stratton Corporation in Milwaukee. In this capacity, he was assistant to the chief accounting officer of the firm, and his assignments included reports on the company's system of internal control, increasing cost of indirect labor and supplies, etc., and analyzing financial statements. He has had wide experience in handling state and federal tax matters and has represented the firm at the Milwaukee chapter meetings of national accounting organizations.

Prior to his association with Briggs & Stratton, he was acting chief accountant of the Inland Rubber Company, and from 1944 to 1946 was a senior accountant with George Rossetter & Co. in Chicago, one of the leading public accounting firms in the country. His assignments were primarily in the manufacturing field but also included hotels, trade associations and municipalities. From 1941 to 1944, he served as an officer in the tank corps of the Army.

FIRST MEXICO MEMBER TO BE ADMITTED SOON

MBA will soon have its first member in Mexico and will thus assume an international character which not many would have anticipated a few years ago. The application of the Banco Nacional de Mexico, S.A., Mexico City, has been received and is being processed. Mariano Alcocer, Jr., of the institution's trust division is the Association contact man. The bank has a property management division and real estate sales department. It was founded in 1884 and has 100 branches throughout Mexico.

This is the first Mexican membership. MBA has two members in Puerto Rico, Banco Credito y Ahorro Ponceno and Banco Popular de Puerto Rico, and four in Canada, Sun Life Assurance Company of Canada, Montreal, The Canada Life Assurance Company, Toronto, The Manufacturers Life Insurance Company, Toronto, and The Great-West Life Assurance Company, Winnipeg.

Activity in the current 1949-50 membership campaign has not let up with the advent of summer but is continuing with increased vigor. Total new members for the year now stands at 225 which is far in excess of anything we have had during a comparable period in the past. Membership Chairman, E. R. Haley of Des Moines, and his committee,

(Continued next page)

Notes About Members, Other MBAs, Coming Events

Original minutes of the first meeting of the board of directors of The Manhattan Life Insurance Company, held in the mayor's office of New York on June 12, 1850, returned to City Hall, this year, exactly one hundred years after they were inscribed there. They were in the custody of three of the Company's directors, Thomas E. Lovejoy, Jr., first vice president and treasurer, Robert A. Kelly and Henry Waltemade, who were welcomed by Mayor O'Dwyer.

The Mayor was presented with a reproduction of the 100-year old minutes written in the office of Mayor Caleb S. Woodhull, who was also one of the first directors of the Company.

The Company's first board meeting took place in the mayor's office because the committee on location reported that it could not "find a suitable place at a fair rent." This situation was soon remedied, however, for the Company established its first home office at 108 Broadway by August 1, 1850, when the first policy was issued.

New and modern mortgage loan offices can be seen in almost any community over the country these days. Greenebaum Investment Co., Chicago, one of the oldest mortgage houses in the country, has just opened new quarters at 209 South La Salle Street incorporating all sorts of new ideas in office design and efficiency. In Philadelphia, Peoples Bond and Mortgage Co. has moved to new quarters on Walnut Street with sound proofed offices and a special basement section to house their bookkeeping and servicing divisions.

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are now working on the final drive before the opening of the convention in September.

New members just admitted include:

- DISTRICT OF COLUMBIA, Washington, James A. Hewitt Properties Management Corp.
- GEORGIA, Atlanta, J. H. Dolvin Company
- ILLINOIS, Chicago, Benefit Association of Railway Employees; Rock Island, Harry H. Hall Realty & Mortgage Service
- KANSAS, Topeka, The Topeka Mortgage & Investment Company
- LOUISIANA, New Orleans, Eason-Jeansonne, Realtors
- MISSOURI, Kansas City, Mercantile Bank & Trust Co.
- NEBRASKA, Lincoln, Lincoln Liberty Life Insurance Co.
- OHIO, Canton, The Leonard Agency Company
- OKLAHOMA, Oklahoma City, Oklahoma National Mortgage Co.; Tulsa, National Bank of Tulsa
- TENNESSEE, Chattanooga, Chamberlain Co.-Realtors
- TEXAS, Abilene, Abilene Savings and Loan Association; Dallas, First National Bank in Dallas; Harlingen, Joe L. Penry; Waco, S. J. Guthrie Company

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Summer for most local MBAs over the country is traditional for outings and other get-togethers where business is de-emphasized in favor of fun. Chicago MBA has just held its outing, a feature of which was the annual baseball game between Bankers and Correspondents. The Bankers, captained by Henry Kracalik of Bell Savings and Loan Association, took this one and will retain the gold cup until next year. Detroit MBA's outing featured golf and a big steak dinner that made a hit at their 1949 outing. Birmingham MBA members went to Oak Mountain State Park for a barbecue. Guests were VA and FHA officials.

Stanley P. Fosgate has joined Lon Worth Crow Co. in Miami as vice president. He was formerly with The Keyes Company and prior to that with Prudential. He is a director of of the Greater Miami MBA.

M. P. Crum Company of Dallas is celebrating its 25th anniversary. Mr. Crum is a charter member of the Texas MBA of which his son, Paul Crum is now a director. The latter is a past president of the Dallas MBA.

The Columbus, Ohio MBA is growing, Charles G. Schenck, Jr., president, reports. Five new members have just been admitted and the association is maintaining an active program.

Ferd Kramer, president, Draper & Kramer, Inc., Chicago, has been re-elected president of the Metropolitan Housing and Planning Council. He has headed the organization for many years. Walter Cohrs, First National Bank of Chicago, was re-elected a director.

Feist & Feist in New York have moved to new and larger quarters at 100 Park avenue.

Walter H. Rolapp, president of Pacific Mortgage Corp., Los Angeles, has been elected to the board of Northrop Aircraft Inc. . . . Philip A. Roth of New York, who has been elected a trustee of Title Guarantee and Trust Company, according to an announcement by Barnard Townsend, president.

Philip A. Roth

Percy Wilson Mortgage and Finance Corp. of Chicago has acquired the business of Midwestern Mortgage Co. of Chicago, a subsidiary of the Franklin Pioneer Corp. of Louisville, Ky.

MORTGAGE LOAN DELINQUENCIES

and What Causes Them

By WILLIS R. BRYANT

MORTGAGE lenders who have maintained an effective delinquent loan servicing system since early 1946 are experiencing a *decrease* in loan delinquencies. This is true in spite of unemployment, some over-extension caused by excessive installment purchases and other present conditions which might be expected to cause increases in delinquencies. Careful analysis of present delinquencies and conditions producing them will suggest opportunities for a further reduction in delinquencies.

W. R. Bryant

Although more VA loans have been made in the past five years than about any other type of mortgage loan, delinquencies occur at essentially the same rate of frequency among all types of home mortgage loans.

Selected as a basis for our analysis were 240 loans which became delinquent during the past five years. Ninety of these 240 loans were FHA and conventional bank loans, while the remaining 150 were VA 501, 502, 503 and 505 loans. It was found that reasons for delinquencies were much the same for veteran and non-veteran loans. This is demonstrated in the adjoining tabulations of reasons for serious loan delinquencies.

These tabulations show that the major reasons for serious delinquencies on all types of loans is "Improper regard for obligations and uncooperative borrowers." These are generally cases involving borrowers who have steady incomes but will bring their loans up to date only after constant and intensive follow-up by the lender.

"Unemployment" is the second principal reason for delinquencies of VA loans and the fifth major reason for FHA and conventional bank loans. It is perhaps significant that "marital difficulties" holds third position on VA loans and seventh position on FHA and conventional bank loans.

There are a number of causes of delinquencies on which forebearance is necessary, such as illness and accident, unemployment, marital difficulties and bankruptcy. The ten basic reasons listed are only a small portion of the many reasons for general delinquencies, and these ten reasons need further analysis and elaboration.

Actual inability to pay on FHA and conventional loans consists of less than half of such delinquent loans, while on VA loans the percentage is more than half. This suggests that about one-half of all delinquencies, whether veteran or non-veteran, may be cleared up quickly through effective loan servicing. In many such cases it is necessary to start foreclosure proceedings in order to force borrowers to take positive action to bring the delinquent loans up to date. Proper handling of the actual "inability to pay" cases should also insure a satisfactory workout of nearly all such loans.

However, the "pay up or else" attitude is a thing of the past on any type of loan delinquency if proper borrower and public relations are to be maintained. It is easy enough to be firm without using threats and we now have a type of borrower who needs counsel and guidance not only

FHA and Conventional Bank Loans

Reasons	*Loans*	*Pct.*
1. Improper regard for obligations—uncooperative borrower	33	36.6
* 2. Over extended—excessive obligations	15	16.7
3. Chronic poor pay	10	11.1
* 4. Business difficulties	7	7.7
* 5. Unemployment	6	6.7
* 6. Bankruptcy	6	6.7
7. Marital difficulties	5	5.7
* 8. Curtailment of income	4	4.4
* 9. Illness and accidents	3	3.3
*10. Strikes	1	1.1
	90	100.0

*Actual inability to pay—46.6%

VA 501, 502, 503 and 505 Loans

Reasons	*Loans*	*Pct.*
1. Improper regard for obligations—uncooperative borrower	39	26.0
* 2. Unemployment	25	16.7
3. Marital difficulties	24	16.0
* 4. Excessive obligations	23	15.4
* 5. Illness and accident	15	10.0
* 6. Curtailment of income	9	6.0
* 7. Business difficulties	8	5.3
8. Chronic poor pay	5	3.3
* 9. Bankruptcy	2	1.3
*10. Strikes	0	0
	150	100.0

*Actual inability to pay—60.7%

at the time of obtaining the loan, but also when things start breaking badly for him. Proper handling of these cases will assure a satisfactory workout in nearly every instance.

Under "Improper regard for obligations and uncooperative borrowers," we have the following types of delinquencies:—

1. Carelessness—nonpayment due to oversight, neglect, willful inattention, or thoughtlessness.

2. Impression that lender should always be willing to let payment be deferred for any reason whatsoever.

3. No response to lender's request for cooperation.

4. Unwillingness to endeavor to reinstate loan.

5. Diversion of income to other interests.

6. Resentment or ill will toward lender when requested to make proper payment, if not paying in accordance with terms of note.

7. No payments ever made unless constantly demanded by lender. In many such cases foreclosure must be started to force payment action.

8. Vacations—in some cases borrower will use the funds which should be applied on the loan for vacation expenses.

9. Dishonesty—willful violation of trust, falsification of facts covering any given situation.

The National Bureau of Economic Research, in reporting the foreclosure experience of HOLC covering samples selected in the New York-New Jersey-Connecticut area, makes the following general conclusions:

"Actual inability to pay was rated by HOLC examiners as responsible for only 18 per cent of their foreclosures, whereas non-cooperation and what was termed 'obstinate refusal to pay' accounted for 66 per cent. These results emphasize the importance of the 'moral risk' in the type of operation in which HOLC was engaged."

We cannot generalize on loan servicing by saying that certain types of borrowers are poor risks, that the borrower overbought, or that his monthly payments were too high in the first place. Any prudent lender will properly screen each potential borrower and will see to it that the borrower does not overbuy, or that monthly loan payments are not too high based on present and anticipated monthly income. Neither can we say that all poor pay loans should be foreclosed. Delinquent loans must be analyzed individually if effective loan servicing is to be maintained. A prescription for one delinquent borrower might not be good for another delinquent borrower, and judgment cannot be passed until a detailed case history has been developed. That is why a personal call should be made at the home of the borrower in all cases where the loan is heading for trouble.

By efficient and effective loan servicing lenders may compensate themselves to some degree in offsetting loss of revenue due to decreasing interest rates on certain types of loans. It naturally follows that loan servicing deserves more than casual and routine handling. It deserves the constant attention of top management and the best within our power to give it. There is too much at stake to pursue a course other than that of efficient and effective loan servicing.

What causes loan delinquencies? If we knew more of the causes, could we act in advance to avoid more delinquencies? The American Trust Company in San Francisco sought the answer as to specific causes in a special analysis it made of a group of its delinquencies. It is reported here by Mr. Bryant who is assistant vice president and president of the Northern California MBA. Some of the results may be surprising and others may be a little disturbing if you stop to look ahead into future years when delinquencies may be higher than they are today.

OVER BUILDING IN OFFICES

(Continued from page 5)

must have a chromium ceiling in the lobby. But it does mean certain expedient renovations, for example, acoustical treatment — which is an economical and profitable method of refinishing a ceiling. And it means individual air conditioning for the comfort that tenants get in new buildings. Modernization means redecorating for beauty through simplicity—the style of the times: new lighting, dessing up elevator cabs and lobby, streamlining and cleaning of exteriors.

Don't feel that you do not have to do this because you have held your tenants for 10 years. Of course you have held your tenants. Everyone has. The past 10 years have not been normal.

But, if you will do this you can put a more effective brake on new building than all the preaching you can do to lending institutions.

Your modernization and your preaching cannot stop new construction for large corporations which build their own structures when they do not find buildings with space big enough for them. But modernization will hold smaller tenants and thereby remove a demand for new buildings to house them.

If you sit back and inhale that old opiate that you have held your tenants for 10 years without lifting a finger, you will see many more new buildings tempting Model-T tenants to splurge on Cadillac space even though their old bus still runs all right.

I am convinced that the only sensible curb we can place on overbuilding is through keeping our older buildings in the running as long as possible through attractive and comfortable modernization.

WHERE THE MONEY GOES

Indicative of the growth in government in the past half century, one out of every eight persons with a job in 1949 worked for government —Federal, State and local—as compared with one out of every 23 in 1900, according to the National Industrial Conference Board.

Including the Armed forces, a total of 7.3 million persons were on government payrolls last year as compared with 1.2 millions in 1900, a gain of more than 500 per cent. Total employment in this period rose from 27 millions to 57.9 millions, an increase of 115 per cent.

Life insurance policyholders had a record health year in 1949, the death rate per 100,000 reaching a new low of 701, the Institute of Life Insurance reports. This compared with 709 the year before and an average of 1,060 for the years 1915-20.

How Long Will the Building Boom Last?

By D. W. ELLSWORTH

Everyone has his own opinion as to how long the building boom will last and particularly the accelerated 1950 version of it. The pace being set today isn't going to continue indefinitely of course just as the automobile industry cannot go on indefinitely producing cars at the rate of nine million a year. But the boom in building has more substance to it than most people believed and probably more than most people believe even now. Mr. Ellsworth is looking at the possibilities here from the standpoint of an economic adviser and he concludes that there is still a great deal of demand to be met, even including Korea and other adverse factors. He is vice president of E. W. Axe & Co., Inc., a firm which manages several investment trusts and makes a careful study of all economic trends.

IN 1940 there were 37 million dwelling units in the the United States, of which 35 million, or 94 per cent, were occupied. The unoccupied houses began to fill rapidly, so that by 1945 and 1946 the available housing units, at least in urban areas, were 98 per cent to 99.8 per cent occupied. This means that virtually all habitable dwelling units were fully occupied. This condition of 100 per cent occupancy began as early as 1944, when new residential construction had been severely restricted for two years.

In 1940 there were 3.7 persons per occupied dwelling unit in urban and rural non-farm areas. This figure may be used as the normal occupancy ratio for computing total housing needs.

The total population has increased 14 million since 1944, which was about the time when all housing units became fully occupied. Dividing 14 million by 3.7 indicates that there was a need for 3.8 million new housing units from 1944 to 1950.

Still a Deficit

Actually there were 3.7 million housing units built in the five years ended Dec. 31, 1949, according to the Bureau of Labor Statistics. The 3.7 million units added does not mean however that there has been a net gain of that amount in the number of housing units standing, because thousands are destroyed every year by fire or other disaster, or become so old that they have to be abandoned. It is estimated that the number of units destroyed annually amounts to 100,000. Assuming that to be a reasonable figure, subtract at least half a million from the number actually built, leaving 3.2 million units added since 1944, as compared with an indicated need for 3.8 million new units.

So we still have a housing deficit which, when filled, will merely provide enough space for the present population with 100 per cent occupancy. But the boom will probably continue until the occupancy ratio recedes to 97, 96, 95 or some percentage that was considered normal before the war.

Larger Families

There are other factors which might prolong the boom beyond the point indicated by the bare figures. There is every indication that the average size of families is growing; many of the houses now being built are too small.

The figure of 3.7 million housing units built from 1945 to 1949 includes only urban and rural non-farm construction. How many farm dwelling units have been added is unknown, but the number is probably relatively small because the farm population is virtually stationary, and the number of occupied farm dwelling units, according to the census, was actually lower in 1947 than in 1940.

The increase in the population has been virtually all urban, and this has intensified the need for new housing, so that it is probably actually greater than indicated by the figure of 3.8 million based on the total population.

The population is increasing 2½ to 3 million persons per year, mainly because of a birth rate of 24 per thousand, as compared with a prewar rate of 17 per thousand. The marriage rate had receded to the prewar rate in 1949, but the birth rate thus far has shown little sign of slackening. The present rate of population increase at any rate indicates a present need for 700,000 to 800,000 new housing units annually. Last year 1,025,000 units were started (and presumably completed) and this year the total will be substantially higher, according to present indications.

The Boom Not Over

So the housing shortage is being overcome, but the building boom probably has some distance to go before anything like a prewar occupancy ratio is attained.

It may be cut short of course by high construction costs which are now rising so rapidly that it is probably a matter of months when the postwar peak of 1948 will be regained. This danger, on the other hand, is partially offset by the many artificial encouragements to building, including government guarantees of high loans and easy terms of purchase. It has been said that in some places the purchase of a new house can be arranged on easier terms than the purchase of an automobile. This and the prevailing high and widely diffused purchasing power suggest the continuation of the boom to some point beyond the date when rising costs would otherwise begin to discourage builders.

WHAT WENZLICK THINKS ABOUT THE BOOM

A major collapse of the present real estate boom by the middle 1950's is now being predicted by Roy Wenzlick.

"I don't believe the real estate boom will go much higher. And I see little change this year and not too much change in 1951. However, I expect the start of a collapse by 1953 with a rapid downward move until 1956 or 1957, followed by the start of a recovery."

Wenzlick points out that real estate booms and depressions tend to occur at long intervals of from 16 to 20 years apart, and that never in history has there been a little boom or mild depression. "They either run wild or collapse," he said—an opinion concurred in by his contemporary real estate analyst, James Downs in his speech given at our June Mortgage Banking Seminar.

Wenzlick says he is concerned over the large number of G. I.s, and other home owners who have long-term loans with little or no down payments because of the danger they will not pay off the loans fast enough to keep ahead of the price drop. The point may be reached, he said, where the home owner could buy a new home for less than the amount of debt on his old one.

As to farm prices, Wenzlick said in general that farms are in a more stable condition than city property because financing is sounder. Farms have already passed their peak, and a slight downward trend will probably continue for 15 to 20 years. In spite of this he sees a minimum of farm difficulty.

SEARCH FOR INCOME

(Continued from page 7)

Credit terms tended to be more liberal with respect to loan-to-value ratio and contract length on loans secured by one- to four-family properties than on loans on other structures.

Interest Rates

About 56 per cent of the number and amount of loans secured by one- to four-family properties had original interest rates between 4.1 and 4.9 per cent. Interest rates on loans secured by other types of property, while also concentrated in the same range, were more widely distributed in higher and lower interest rate classes.

The average rate of interest received on portfolios of urban mortgage loans at the end of 1946 was 4.5 per cent on one- to four-family properties and 4.2 per cent on income-producing properties. There were virtually no geographical differences among interest rates on the former type.

Interest rates on loans of all property types tended to be higher on loans with no amortization provision. There was a distinct tendency for interest rates to be lower on loans of long maturity than on those of short contract length, and interest rates on loans secured by properties other than the one- to four-family type tended to be lower on the larger loans.

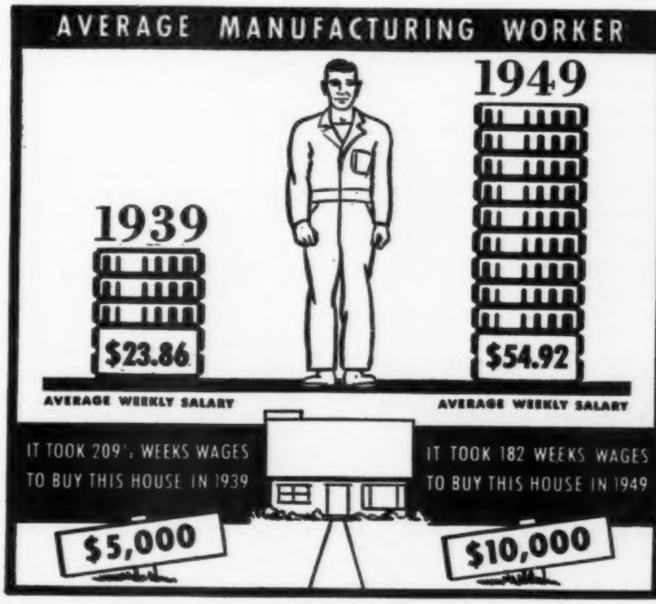
EASY MATTER NOW FOR WORKER TO BUY A HOME

Although construction costs have risen slightly more than 100 per cent since 1939, it is easier for the average manufacturing worker to buy a house now than in pre-Pearl Harbor days. The NAHB points out that $54.92 per week salary takes only 182 weeks' wages to buy today's $10,000 house. Ten years ago, on a $23.86 salary, it required 209½ weeks' wages to buy the $5,000 house.

Leonard Marx, writing in the current *Appraisal Journal,* says the long-range economic outlook for real estate lies in the underlying relationship between real estate value and the price of labor.

"Since all indications are that labor will exert continuous pressure for higher wages, it follows that real estate prices and values will tend to move upwards."

According to Marx, housing has just emerged from a period, the second in the 20th century, wherein a number of factors such as a cessation of construction, the continued movement from the farm to the city, and the normal increase in the number of households, combined to create an acute shortage of housing units.



Notes About the Business

FRAZIER LEMKE AGAIN

In our May issue we described at some length the possibility that if the House should act favorably on the proposal to again put into law certain provisions of the old Frazier Lemke farm bankruptcy act, it would mean a most serious blow to farm mortgage lending. Since then our farm mortgage committee headed by Jack D. Merriman of Kansas City and our board of governors have given the matter considerable study; but since the bill is not scheduled for consideration at this session, no specific plan of action has been decided upon. At the house hearings—when, as and if they develop next year — the Association will of course be represented. This legislation would, in effect, make permanent the principal provisions of the old Frazier Lemke law which expired last year.

ABA's Agricultural Commission has adopted a resolution condemning the bill—which passed the Senate a year ago practically unnoticed—saying that it "does not provide secured creditors the right to have the encumbered property of the farmer bankrupt sold at public sale which has traditionally been recognized in bankruptcy proceedings. Further, the ability of all farmers to obtain mortgage credit would be seriously impaired if these bills became law.

"Inasmuch as farmers are afforded adequate protection in bankruptcy proceedings under Chapter 12 of the Bankruptcy Act, there is no need for the enactment of H.R.3112 and S.938."

The Independent Bankers Association registered similar disapproval of these bills in a resolution adopted at its recent convention in Des Moines, Iowa.

SUGGESTS A STUDY OF MORTGAGE LOAN FIELD

Creation of a joint congressional committee to study the nation's mortgage financing with the assistance of organizations in the real estate and mortgage financing fields was proposed by John C. Thompson, Newark, former president of MBA testifying for NAREB.

He made his proposal before the senate banking and currency committee, in testifying on the Maybank bill. Because of "its own instability and economic frailty," it would fail, he said. "It would not accomplish the desirable objectives of providing workable private national mortgage corporations to purchase, service and sell government insured or guaranteed mortgages."

Thompson said that a thorough study "of the sources and demands for mortgage monies will contribute to the solution of current mortgage financing problems and have a most beneficial and stabilizing effect upon the real estate economy.

"The study should be sufficiently extensive to embrace the consideration of interest rates, the lengths of terms of mortgages and the formation of economically sound private mortgage corporations to provide secondary mortgage credit funds. This committee should report its findings and recommendations to the next Congress."

Thompson pointed out that the Census Bureau is presently making a detailed national survey of the status of existing residential mortgages. This will show the mortgage payment pattern, the interest rate, the terms of the mortgages, and the extent and kind of junior mortgages, and will supply a comparison of FHA and VA mortgages with conventional loans.

All of this information is pertinent to legislation affecting mortgage finance, and should be considered, Thompson declared. He explained that ample time is available to make the thorough study of the mortgage financing situation by the joint committee, utilizing the Census Bureau data, since present legislation and operation of the industry will continue during the next 12 months.

Mr. Thompson said NAREB is heartily in favor of the objectives of the bill, the purposes of which are to assist in returning the secondary credit operations of the government in FHA and VA mortgages to a standby source of liquidity for private holders of such mortgages and to provide for the establishment of private national mortgage corporations to purchase, service and sell government insured or guaranteed mortgages.

FRANK J. MILLS • THOMAS B. O'TOOLE

With deep sorrow we record the deaths of two MBA members who in the past made important and significant contributions to the Association's progress and the industry's betterment.

Frank J. Mills, vice president of the Fort Wayne National Bank, Fort Wayne, Ind., died July 12 after a long illness. He was a former member of the MBA board, served on many Association committees and participated in many of its activities. He was particularly instrumental in assisting in the early development of the Bankers section of the Association at a time when few commercial banks held memberships. He is survived by a daughter and two brothers, all of Fort Wayne. Funeral services were held July 15.

Thomas B. O'Toole, president of T. B. O'Toole, Inc., Wilmington, Del., was killed July 9th when the car in which he and Mrs. O'Toole were riding was hit by an M-4 tank, part of a convoy of National Guard en route to Fort Miles, Del., for summer maneuvers. Mrs. O'Toole sustained a broken arm and a slight skull fracture but improved rapidly. Mr. O'Toole's chauffeur was also seriously injured in the accident.

Mr. O'Toole took an active part in MBA activities during the war when confusion regarding stop orders on building, priorities and other developments incidental to the war effort so greatly perplexed all industries including our own. He was instrumental in assisting in formulating plans by which the war effort was benefited.

Both Mr. Mills and Mr. O'Toole had hosts of friends all over the country, in the mortgage industry and in other fields. Both will be greatly missed wherever they were known.

HIGH PRODUCTION OF HOUSES WON'T BE MAINTAINED IF WE *Stay in Groove of the Past*

says

RAYMOND M. FOLEY

Administrator, Housing and Home Finance Agency

THERE is much speculation on the possibility of continued high production. Starts early this year seem to foreshadow a greater production than last year—and already there are claims that rising costs are caused by it. Will the rate continue this year, and next, and in later years?

I decline to predict what will happen. But we can and should have million-a-year-and-better production for many years if we get the right distribution geographically and in price and type ranges. We won't get it if we try to stay in the groove of the past. We won't get it if we have the cost situation of early post-war—with unnecessary gray market charges piled on so long as the traffic will stand them. Some newspaper accounts say that is beginning to happen again.

If it is—that is a danger signal to the whole industry. My advice is to refuse to pay unnecessary premium charges for materials or services. My advice to lenders is to scrutinize carefully the estimates for which financing is sought, to avoid encouraging them with financial support. I shall continue to advise FHA and VA to maintain a policy of increasing care in that regard in all their field office cost estimations and appraisals. We cannot afford to have the purpose of liberal financing distorted and defeated by its being used to support inordinate profits, fees and charges that inevitably are reflected in higher prices.

The industry itself must resist this trend, or it will be a party to eventual reduction of its own market.

Further, another year of high production will have taken the keen edge off actual physical shortage of shelter. It will bring us closer to the point where new family formation and undoubling will probably not sustain a million-and-over a year. But the advance estimates made by the Agency and the Congressional committees in past years were based on that fact. We are reaching the point where removal of the worst housing and substantial rebuilding of that which has worthwhile remaining value, must become a larger part of the production plans. We have always warned the industry that this point would be reached, and must be provided for, if high production is to be maintained. It is fortunate that the slum clearance and community redevelopment provisions of the 1949 Act will be in full operation during this year, so that cities later can begin using it to contribute substantially to a high production in the right direction.

It is fortunate, too, that Congress has provided special machinery for insured financing in areas that have been able to use the FHA system very little—rural, small town, and outlying suburban areas. I commend Section 8 to lenders' attention. It will be one of the means of encouraging the broader geographic distribution necessary to sustained production.

So, too, will two provisions of the law that have been controversial—public housing and cooperative housing. The latter will provide another means of producing areas of the buying market that have not been reached hitherto. Section 213 will provide means of assisting in the formation of sound cooperatives as well as a way of insuring their credit for lending.

Public housing will play its part not only in directly housing the low-income families, to the extent of 135,000 units a year, or more, but it will be a factor in making possible a sustained private production in the next several years. The clearance of bad housing from the slums for replacement will be essential if we are to keep high production levels.

But lack of housing for the displaced poor has been one of the chief factors that has prevented this in the past. Public housing provisions of the law, permitting use of open sites for such projects, furnish a means whereby slum clearance becomes more practical from the point of view of initial provision to rehouse the low-income families. But it also opens a new avenue to a big private building market, for the families of higher income who must be rehoused, who comprise a large percentage of all families in many slum areas.

One of our biggest tasks after the war was to develop a million-house industry. We had to bring it up to a level it had never before long sustained. Quite aside from need, the fact that we have reached a million houses a year for two years does not mean we have yet actually firmly established the industry on such a base of ability. It means we have proved we can do it. Now we have to build into it as a total industry more of the strength of fiber that will enable it to continue; to meet more difficult situations; to discipline itself; to resist the quick-dollar temptation in return to long-range stability; to support research and long-range improvement; to eliminate waste and to become salesmen again.

We are again at a period of transition, when adjustment of emergency provisions to long-range production calls for the most careful joint study and action. One of these situations is the secondary mortgage market. An example is the changes in FNMA operations, particularly elimination of advance commitments. How far the heavy starts of the first quarter may have been stimulated by the combination of FNMA advance commitments with VA and FHA commitments and an unnecessarily general use of the 100 per cent loan privilege, as an easy sales device rather than as a means of benefiting veterans needing such financing, remains to be seen. What effect interest rate changes of FHA may have in creating a more uniform private secondary market, it is too soon to say. My hope is that both steps will tend to stabilize finance and therefore to stabilize production.